



CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 03/07/06

AGENDA ITEM 2

WORK SESSION ITEM _____

TO: Mayor and City Council

FROM: Human Resources Director

SUBJECT: Authorization to Participate in the California Government Voluntary Employees' Beneficiary Association Trust Program

RECOMMENDATION:

It is recommended that the City Council adopt the attached resolution authorizing the City's participation in the California Government Voluntary Employees' Beneficiary Association Trust program.

DISCUSSION:

During collective bargaining negotiations in 2004, the various bargaining units negotiated the following leave conversion benefit: "An employee who separates from service and is at the time eligible for early, normal, late or disability retirement under the CalPERS system, may elect, in accordance with this section, to defer receipt of payments that would normally be made in lieu of unused leave by participating in the approved Leave Conversion Plan. The City agrees to contract with a third party as provider of a Defined Benefits Plan (or other plan) approved by the Internal Revenue Service and the Franchise Tax Board to administer the Leave Conversion Plan".

The City's participation in a Voluntary Employees' Beneficiary Association or "VEBA" will provide this leave conversion benefit. Enrollment in a VEBA will enable participating employees to use pre-tax monies to pay for eligible medical expenses.

A VEBA is a tax-exempt trust whose funds are used to pay for eligible medical expenses. As presently structured, VEBA participants would include both active employees as well as employees who retire after enrolling in and contributing to the VEBA; current City retirees are not eligible to participate.

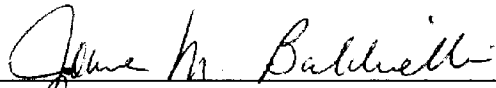
Participants earmark funds to individual accounts via direct payroll deductions as well as with the proceeds derived from cashing out sick leave, vacation and other accrued leave upon separation, as appropriate. Assets in an individual's tax-exempt VEBA account can be used for eligible life, sick, accident or other related benefits on a tax-free basis. Unlike other

retirement savings programs, there is no maximum limit on an employee's contributions into a VEBA account.

Instead of the City creating its own VEBA, staff believes it is more efficient for the City to provide employees with the opportunity to participate in an existing VEBA. In that regard, the City of Foster City recently created and implemented a multi-agency trust program, the California Government Voluntary Employee Beneficiary Association (or "CGVEBA") program, and the Internal Revenue Service has issued a letter ruling approving CGVEBA's tax-exempt status. After extensive discussions with Foster City staff and upon review of the CGVEBA, City staff has determined that the CGVEBA will provide the leave conversion benefits negotiated by the referenced employee groups. Participation in the CGVEBA by eligible employees would enable them to use pre-tax funds to pay for designated medical expenses.

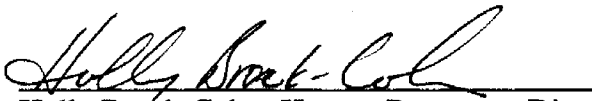
At present, CGVEBA Funds are administered by Brentwood Assets and are invested in a Metropolitan Life Investment program which guarantees preservation of principal as well as a minimum 3% rate of return. Claims are administered by the Administrative Resources Corporation. CGVEBA contributions are made by employees and can consist of voluntary payroll deductions and/or the proceeds from leave conversion payouts at separation. Any costs associated with the administration of the plan are paid by the employee. The only expense incurred by the City is the de minimus cost of administering payroll deductions for CGVEBA participants. Therefore, staff recommends approval of the attached resolution authorizing the City's participation in CGVEBA.

Prepared by:



Joanne Baldinelli, Employee Benefits Administrator

Recommended by:



Holly Brock-Cohn, Human Resources Director

Approved by:



Jesús Armas, City Manager

Exhibit: Resolution

DRAFT

HAYWARD CITY COUNCIL

RESOLUTION NO. _____

Introduced by Council Member _____

me
2/23/06

RESOLUTION AUTHORIZING THE CITY OF HAYWARD'S PARTICIPATION IN THE CALIFORNIA GOVERNMENT VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION TRUST PROGRAM

WHEREAS, the City of Hayward has made available to all its employee groups a leave conversion benefit which will provide their members with the opportunity to use pre-tax monies to pay for eligible medical expenses; and

WHEREAS, the City of Hayward's participation in the California Government Voluntary Employees' Beneficiary Association ("CGVEBA"), a multi-agency tax exempt trust whose funds are used to pay eligible medical expenses for active employees and for those employees who enroll in and contribute to CGVEBA and who subsequently retire from City employment, would provide this leave conversion benefit to eligible City employees; and

WHEREAS, because employee participation in the CGVEBA is subject to evidence of good faith negotiations as established by a side letter agreement, the City of Hayward is currently completing side letter agreements with its employee groups regarding CGVEBA participation; and

WHEREAS, a participant will have his/her own CGVEBA account and fund such account by direct payroll deductions as well as with the proceeds derived from cashing out sick leave, vacation and other accrued leave upon separation from City employment (if provided for in pertinent personnel policies or collective bargaining provisions); and

WHEREAS, any costs associated with administering the CGVEBA plan are paid by the employee and any costs incurred by the City would be those de minimis costs associated with administering payroll deductions for participating employees; and

NOW, THEREFORE, BE IT RESOLVED by the City Council of Hayward that, effective March 7, 2006, the City participate in the California Government Voluntary Beneficiary Employees' Association and that staff finalize the terms and conditions of employee participation in CGVEBA with Brentwood Assets, Metropolitan Life and Administrative Resources Corporation.

IN COUNCIL, HAYWARD, CALIFORNIA _____, 2006

ADOPTED BY THE FOLLOWING VOTE:

AYES:

NOES:

ABSTAIN:

ABSENT:

ATTEST: _____
City Clerk of the City of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward